



WHY INEQUALITY MATTERS:

SOUTH AFRICAN TRENDS AND INTERVENTIONS

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ABSTRACT

The dynamics of inequality in South Africa have evinced various trends since the advent of democracy. While income inequality among the races may have somewhat declined, this is not necessarily the case with regard to the income gap among various social strata within the population as whole. Rising income inequality is not unique to South Africa: it finds expression in most OECD countries, and even in countries such as China where poverty has been reduced. Yet Brazil seems to have succeeded in the past few years to buck the trend.

What are reasons behind these global trends, and what are the lessons that South Africa can draw from these experiences?

The burden of inequality falls inordinately on the poor and the marginalised. Yet, as Richard Wilkinson and Kate Pickett demonstrate in their book, *The Spirit Level*, inequality has a negative impact even on the rich. This relates to such issues as the magnitude of violent crime, educational performance and even teenage pregnancies among both the rich and the poor. It also relates to the magnitude and quality of economic growth. It is therefore in the interest of all sectors of society that inequality is addressed.

In trying to identify holistic approaches to address inequality, it is necessary to look beyond income inequality and interrogate indicators such as assets, access to services and opportunity, and social capital. These indicators articulate with one another in virtuous or adverse ways, depending on the effectiveness or otherwise of the interventions applied. How does South Africa fare in this regard?

Measures required to deal with inequality include the absorption of more people into economic activity, quality education, efficient public services, progressive taxation and appropriate spatial settlement patterns. While economic growth is critical to dealing with inequality, such growth should be pro-poor; and pro-poor economic and social interventions should be pro-growth.

It is appropriate that public policy should target both the reduction of poverty and inequality, proceeding from the understanding that the reduction of poverty may not necessarily result in the reduction of inequality.

INTRODUCTION

Much of the recent discourse on the global political economy has focussed on income inequality across the world. This is impelled by the evidence of growing inequality within most societies, accompanied by increasingly large packages of corporate executives.

Part of the discourse relates to issues of fairness in societal relations. However, it has also been foregrounded by the real experience of the majority in most societies who are experiencing a declining share of national income, often accompanied by declining or stagnant real wages. This has worsened since the advent of the global economic crisis in 2008. Many recent studies examine income inequality against the backdrop of its impact on economic growth and on indicators of well-being among the rich and poor alike. As such, how inequality negatively affects national welfare, including social cohesion – and therefore the need to tackle it systematically – is a matter that is assuming prominence in global public policy.

This matter is of great interest to South Africa, given its levels of income inequality which have not changed much since the attainment of democracy. Besides this being a blot on the humanist outlook of the post-1994 dispensation, the racial manifestations of income inequality speak to the slow progress in eliminating the social fissures spawned by apartheid colonialism. A critical element of the experience since 1994 is the impact of state programmes in addressing other manifestations of inequality such as access to assets and social services, and how such progress impacts on and is in turn affected by income inequality.

SOUTH AFRICA: DISTILLING A NINETEEN-YEAR EXPERIENCE

Income derives from employment and/or self-employment, both in the formal and informal sectors.

Since 1995, real economic growth in SA has averaged just over 3% a year. In this period, about 3.4 million net new jobs were created. During the phase of rapid economic growth (2003 – 2008), “the number of jobs created started to outstrip the growth in the labour force. The official unemployment rate – which peaked at 31.2 per cent in March 2003 – dropped to 23 per cent in 2007, despite the fact that the economic upturn had encouraged more people to look for work”¹. Between 1996 and 2011, growth in per capita income was roughly 1.16 per annum². Since the advent of the global economic downturn, the unemployment rate has ticked to just above 25%.

All things being equal, this means South Africans got richer in real terms over 15 years. But critical in understanding trends in any society is the functional distribution of national income, i.e. how such income is shared among various strata in society – in the words of David Ricardo, the fundamental question of political economy.

From work done by Justin Visagie³, while in 1993 79.6% of the population received income of less than R1 400 per person per month (after tax in 2008 prices), this income group had declined to 75.9% of the population by 2008. Those earning between R1 400 and R10 000 had increased from 19.3% of the population to 21.3%; while the proportion of the population earning above R10 000 had increased from 1.1% to 2.8%.

It is however when we examine the share of total income among these groups that the stark trends in income inequality come out in bold relief. The income share of those earning over R10 000 increased from 17% to 32%; while that of the rest decreased from 83% to 68%.

If this were to be disaggregated in racial terms, the share of Africans earning above R10 000 grew by over 10-times from 19-thousand to 257-thousand, while their share of the 'middle class' (between R1 400 and R10 000) increased by some 2.4-times to become the majority in this segment. Whites earning above R10 000 doubled to about 888-thousand.

What message do these and related data communicate?

First, it is that income poverty has been declining since the advent of democracy. Poverty Headcount at R524 per person per month decreased from 53% of the population in 1995 to 49% in 2008. This is a consequence both of larger numbers of employed people and access to social grants, the take-up of which has increased from 2.4-million in 1996 to 15.5-million in 2012⁴.

Second, functional distribution of national income has worsened. The share of national income resorting to the richest has grown massively such that today, just over 50% of national income goes to the richest 10% of households "while the poorest 40% received just over 5% of income"⁵.

Third, the change in the share of national income has not favoured the 'middle class', as this has declined from 56% in 1993 to 47% in 2007, despite the fact that their proportion of the population increased by some 2 percentage points⁶. The per capita expenditure growth incidence curve evinces a U shape, reflecting the impact of social grants among the poorest sections of society and greater share of income among the highest earners.

Fourth, according to StatsSA's Labour Market Dynamics in SA (2011), being employed does not, on its own, guarantee an escape from poverty. The bottom 5% of those employed earned about R600 per month; half earned R3 033 and below; while the top 5% earned R21 666 per month. As with rates of employment, these figures show a bias against low educational attainment, rural location and women.

Fifth, it is these trends that account for high levels of income inequality in South African society. The Gini coefficient has been hovering in the mid to late 0.60s over the past 20 years. By this measure, currently South Africa is placed at the second highest level of income inequality in the world.

Sixth, using AMPS data, the inequality measures show a declining trend between races, while it has shown a rising trend within races. Further, even between race groups, inequality "has tended to increase during the ... period of high economic growth. In other words, after the base changes with the elimination of apartheid, it seems that those historically well-off, in terms of income and assets, have taken better advantage of the benefits of growth"⁷.

Seventh, inequality in South Africa's labour market is aggravated by the skills shortages which do add a premium to salaries; while on the other hand, the oversupply of unskilled workers pushes wages down at the lower end.⁸

GLOBAL TRENDS

Rising income inequality is not unique to South Africa.

The International Labour Organisation summarises these trends thus:

“During much of the past century, a stable labour income share was accepted as a natural corollary or ‘stylized fact’ of economic growth. As industrialised countries became more prosperous, the total incomes both of workers and of capital owners grew at almost exactly the same rate, and the division of national income between labour and capital therefore remained constant over a long period of time, with only minor fluctuations... An outpouring of literature has provided consistent new empirical evidence indicating that recent decades have seen a downward trend for the labour share in a majority of countries for which data are available.”⁹

What are the details in some of this literature to which the ILO refers? Tracing the recent evolution of functional distribution of income in the USA, economist Paul Krugman in 2002 observed:

“Over the past 30 years most people have seen only modest salary increases: the average annual salary in America, expressed in 1998 dollars (that is, adjusted for inflation), rose from \$32,522 in 1970 to \$35,864 in 1999. That's about a 10 percent increase over 29 years -- progress, but not much. Over the same period, however, according to Fortune magazine, the average real annual compensation of the top 100 C.E.O.'s went from \$1.3 million -- 39 times the pay of an average worker -- to \$37.5 million, more than 1,000 times the pay of ordinary workers.”¹⁰

This trend has been much in evidence in most of the developed countries. The Gini coefficient among members of the Organisation for Economic Co-operation and Development (OECD) has on average increased from 0.28 in the mid-1980s to 0.31 by the late 2000s¹¹. Household incomes of the top 10% in these countries grew faster than those of the poorest 10%: in UK it was 0.9% per year for the poorest and 2.1% for the richest; 0.5% and 1.9% respectively in the US; and 3% and 4.5% in Australia.

“With very few exceptions (France, Japan and Spain), wages of the 10% best-paid workers have risen relative to those of the 10% least-paid workers... The highest 10% of earners have been leaving the middle earners behind more rapidly than the lowest earners have been drifting away from the middle.”

This ‘trickle-up effect’ is illustrated by the relative magnitude of executive pay. In 1998, the chief executive pay of FTSE 100 companies “was 47 times that of average employees... but had risen to 120 times by 2010”¹².

At least in the US, this seems to have intensified since the advent of the global economic crisis, and during the tentative recovery. The US Census Bureau records that median household income fell in 2012 and “it is now 8.3% below its pre-recession peak in 2007... Median incomes are still declining even though the economy is almost 5% bigger than its pre-recession peak...and more than 10% larger than its trough in 2009 because most of the gains have gone to those with the highest incomes... According to separate figures produced by economist Emmanuel Saez, at the University of California, Berkeley, the incomes of the top 1% of the population rose by nearly 20% in 2012, whereas the incomes of the other 99% rose by just 1%.”¹³

The decline in the labour share of national income has also happened in a period in which, almost always, there is “a growing discrepancy between the respective growth rates of average wages and labour productivity... A publication by the US Bureau of Labour Statistics, for example, shows that the gap between hourly labour productivity and hourly compensation growth contributed to a decline in the labour share in the United States (Fleck, Glaser and Sprague, 2011)... Since 1980 hourly labour productivity in the non-farm business sector increased by around 85%, while real hourly compensation increased by about 35%”¹⁴.

Combined with these trends are also issues of gender, age and location. For instance, according to data collected for the Financial Times of 16 September 2013, “[b]y the age of 27, men earn on average 22% more than women with equivalent qualifications... The main reason ... is that fewer women are promoted to senior management positions in their 20s than men”. Commenting on the ‘youth unemployment bomb’, Peter Coy of Bloomberg BusinessWeek asserts:

“..[A]n economy that can’t generate enough jobs to absorb its young people has created a lost generation of the disaffected, unemployed, or underemployed – including growing numbers of recent graduates for whom the post-crash economy has little to offer...”

“While the details differ from one nation to the next, the common element is failure – not just of young people to find a place in society, but of society itself to harness the energy, intelligence, and enthusiasm of the next generation”¹⁵.

EXPLANATORY HYPOTHESES AND COUNTER-INTUITION

A number of hypotheses have been proffered to explain these trends. Each one of them does have an element of truth; but, alone would not sufficiently clarify the issues.

- Globalisation and trade: manufacturing has shifted to low-wage centres in East Asia and elsewhere resulting in imports of cheap goods in the developed countries.
- Union density: in most of the countries where inequality has worsened, the level of organisation of workers has declined.
- Skills-biased technological change: especially with the emergence of ICT, there is higher demand for highly-skilled and educated workers.
- Global financialisation: the emergence of corporate governance systems that emphasise maximisation of shareholder value and aggressive focus on returns such as private equity funds, hedge funds and institutional investors has put pressure for the ‘trickle-up’.
- ‘Superstar’ hypothesis: competition in modern economies assumes the form of tournaments where the winners (as in the entertainment business) are richly rewarded.
- Mine-bigger-than-yours: executives in large companies, wherever they may be located, seek to outdo their peers; and because of their mobility, pressure is exerted on boards and shareholders to ratchet up their packages across the world.

Paul Krugman feels some of these hypotheses:

“[A]s more evidence has accumulated, each of the hypotheses has seemed increasingly inadequate. Globalization can explain part of the relative decline in blue-collar wages, but it can't explain the

2,500 percent rise in C.E.O. incomes. Technology may explain why the salary premium associated with a college education has risen, but it's hard to match up with the huge increase in inequality among the college-educated, with little progress for many but gigantic gains at the top. The superstar theory works for Jay Leno, but not for the thousands of people who have become awesomely rich without going on TV...

"...it's a matter of corporate culture. For a generation after World War II, fear of outrage kept executive salaries in check. Now the outrage is gone. That is, the explosion of executive pay represents a social change rather than the purely economic forces of supply and demand. We should think of it not as a market trend like the rising value of waterfront property, but as something more like the sexual revolution of the 1960's -- a relaxation of old strictures, a new permissiveness, but in this case the permissiveness is financial rather than sexual."¹⁶

To this mix should be added another hypothesis, which is not unrelated to union density. This is that the period during which the permissiveness of inequality grew coincided with the weakening and collapse of the Soviet Union and other "socialist" countries that, at least at the level of social policy, pursued a more equitable sharing of the benefits of economic activity. Whatever weaknesses the system in these countries had, all-round competition between them and the market-based economies served as a restraining influence on profligacy. Related to this, the political Left in the advanced countries, including social-democratic parties, was much firmer in its focus on social equity and had better organisational power and appeal, as a counter-balance to the rapacious licence of unbridled market economics.

The experiences of three countries that reflect instructive nuances, and in one case, some counter-intuition does stand this discourse in good stead. These are China, Germany and Brazil.

China – poverty-reduction and inequality

Among the major global advances of the past 30 years has been the lifting of some 200-million people from abject poverty in China. However, this has been accompanied by growing inequality, with the Gini coefficient having risen from near-zero to 0.474 in 2012. Researchers at the Southwestern University of Finance and Economics in Sichuan province estimate the Gini at 0.61, which would place China at the top end of income inequality across the globe. As such, the government has introduced an income distribution plan aimed at lifting more people from poverty, including the ratcheting up of the minimum wage to 40% of average salaries¹⁷.

Germany – low unemployment and inequality

In terms of the low unemployment rate, Germany is the envy of most of its OECD peers. The 'jobwunder' is a product in part of its youth training programmes but also the labour market flexibility that was aimed at absorbing as many of the unemployed as possible. However, this obscures another reality: the country "now has the highest proportion of low-wage workers relative to the national median income in Western Europe". The Federal Employment Agency acknowledges that the number of temporary workers increased almost three-fold in the past 10 years. At the same time as atypical employment, including UK-type 'zero contracts', increased over the past 20 years,

real monthly wages remained flat, while productivity increased by about 22.6%¹⁸. As such, income inequality has been ticking up; and little wonder that a minimum wage was one of the central issues in the 2013 elections and negotiations around a coalition government.

Brazil – the counter-intuition

Unlike most countries, Brazil has managed over the past ten years to reduce income inequality. It is estimated that the Gini coefficient was reduced from above 0.60 in the early 1990s to the mid-0.50 by the late 2000s. In the 2000s, the income of the poorest 20% increased at about 6.3% per year while that of the richest 20% increased by only 1.7%. This compares with China which had 8.5% and 15% respectively; India with 1% and 2.8%; and South Africa with 5.8% and 7.6%¹⁹. In Brazil, a combination of factors including the expansion of job opportunities and the introduction of a minimum wage, expansion of access to social grants, regional economic interventions as well as increased consumption demand played a central role. It is subject to debate whether such interventions are sustainable over a long period of time, given the economic and social difficulties that Brazil is currently experiencing. Or are other factors responsible for recent developments: among others, a creaking infrastructure, heightened expectations of the fat years, corruption and specific issues such as fiscal allocations for transport and education?

DOES INEQUALITY MATTER?

Common sense has it that inequality is bad for social cohesion. Extreme inequality is morally reprehensible. But the insidious impact of this runs much deeper than issues of taste, sensibility and morality.

In their book, *The Spirit Level: Why Equality is Better for Everyone*, Richard Wilkinson and Kate Pickett set out to demonstrate the impact of inequality on various measures of human development and wellbeing. Comparing various countries across the world, they come to the conclusion that drug use, mental illness, life expectancy, educational attainment, teenage births, violence and prison population are worse in countries with higher levels of income inequality – even in instances where these countries are at the same level of development. The contrast in this instance would apply for example to the US and UK – which are more unequal – compared to the less unequal Sweden and Japan.

Having done an analysis across these and other countries, they come to the startling conclusion that:

*“The relationship between inequality and the prevalence of health and social problems... suggest that if the United States was to reduce its income inequality to something like the average of the four most equal of the rich countries (Japan, Norway, Sweden and Finland), the proportion of the population feeling they could trust others might rise by 75% – presumably with matching improvements in quality of community life; rates of mental illness and obesity might similarly each be cut by almost two-thirds, teenage birth rates could be more than halved, prison populations might be reduced by 75%, and people could live longer while working the equivalent of two months less per year”.*²⁰

What then about the distinction between correlation and causality and the direction of such causality? Wilkinson and Pickett argue that for each of the social ills, they tested other possible causes and on aggregate the common factor was inequality. Further,

“The relationship between inequality and poor health and social problems are too strong to be attributable to chance; they occur independently in both our test-beds; and those between inequality and both violence and health have been demonstrated a large number of times in quite different settings, using data from different sources.

“...we showed that it was people at almost all income levels, not just the poor, who do worse in more unequal societies. Even when you compare groups of people with the same income, you find that those in more unequal societies do worse than those on the same income in more equal societies.”²¹

But it is beyond social indicators that this challenge manifests itself.

In an IMF Discussion Note of April 2011, Andrew Berg and Jonathan Ostry argue that inequality can be a constraint on economic growth:

“...many of even the poorest countries have succeeded in initiating growth at high rates for few years. What is rarer – and what separates growth miracles from laggards – is the ability to sustain growth. The question then becomes: what determines the length of growth spells, and what is the role of income inequality in duration?”

“We find that longer growth spells are robustly associated with more equality in the income distribution. For example, closing, say, half the inequality gap between Latin America and emerging Asia would, according to our central estimates, more than double the expected duration of a growth spell.”²²

The World Bank asserts the correlation between poverty and economic growth arguing, similarly, that Latin America’s pedestrian average economic growth may be a consequence of high levels of poverty²³. Among other reasons, they argue, this is because poor people have limited access to financial services; they attend low-quality schools; and they are more risk averse. Inversely, the poor have a high propensity to consume, which has many positive spin-offs for various sectors of the economy²⁴.

“...for the average country, a 10-percentage-point increase in income poverty lowers the growth rate by about 1 percent, holding other determinants of growth constant... [A] 10-percentage-point increase in income poverty reduces investment by 6-8 percentage-points of gross domestic product (GDP) in countries with underdeveloped financial systems.”²⁵

It can be argued that elements of these trends do apply to South Africa, though there certainly are other deeper structural problems responsible for the weak endurance of its high economic growth periods. Similarly, South Africa’s macrosocial indicators such as violent crime, poor educational performance, teenage pregnancies, low levels of social trust and the large prison population per capita do correspond with trends in the more unequal societies, particularly Latin America.

And so, reducing inequality is in the interest of both the poor and the rich. It is critical to improving the poor's conditions of life. It is also important in creating a better macrosocial environment for sustainable businesses and reasonable profit-generation. High levels of inequality, on the other hand, undermine prospects for stability and the possibility of forging a social compact to launch onto higher and sustainable rates of economic growth. It can be argued that the progress attained in South-East Asia (and other developmental states) was made possible in part by low levels of inequality and the sense of sharing and sacrifice, particularly when they launched onto higher growth trajectories some 40 years ago.

Before venturing into the panoply of policies and programmes that are required to deal with inequality, let us briefly examine other manifestations of inequality, beyond matters pertaining to income. This is confined to South Africa's experiences over the past 19 years.

INEQUALITY AND THE SOCIAL WAGE

"[W]e have to recognise that deprivation with which we have reason to be concerned is not just the absolute lowness of income, but various "unfreedoms," varying from hunger and prevalence of preventable or curable illness (and even premature mortality) to social exclusion... Income is but one determining influence among many others in dealing with deprivation."²⁶

Indeed, poverty and inequality – and their opposites – cannot be measured merely through the agency of income. Access to basic services such as housing, water, electricity, as well as quality education and health is fundamental in describing the quality of the human condition. As such, measures of non-income inequality do come in handy in assessing the overall improvement or otherwise in national welfare.

The interplay between income poverty and poverty in relation to community assets is perhaps obvious. To illustrate: Poor households with access to jobs have to use their incomes for basic needs such as food, water and electricity. They also have to allocate resources for education and health. If, for instance, they have no access to potable water and rely on dirty streams and other sources, this will affect their health. As such, their meagre income is discounted by poor access to water; it is expended in accessing health facilities – thus worsening the actual experience of poverty and inequality.

Inversely, if a poor household does not have access to employment, and yet is provided with electricity and subsidised housing, two dynamics tend to play themselves out, as shown in concrete South African experience. Firstly, statistics on usage of electricity consistently show a gap between households which use electricity for lighting and for cooking (84.7% and 73.9%, respectively in South Africa)²⁷. Besides the fact that such homes may not afford electrical appliances, they are forced to use electricity sparingly to avoid the bills. Secondly, many incidents have been reported of beneficiaries of subsidised housing selling or renting out these houses and reverting to informal settlements for accommodation. This may in part be a result of the fact that some of the settlements with subsidised housing are located too far from areas of economic opportunity; and/or that some of the beneficiaries may in fact be migrants with formal housing in their rural areas of origin. But an element of this is simply the ingenuity of the unemployed using the assets acquired to earn an income.

Thus interrogating inequality should include an assessment of the provision of the social wage to tackle, in the words of Sen, the “various ‘unfreedoms’” the poor experience. How does South Africa fare in this regard?

Starting off with income redistribution by the state, besides progressive taxation, the government has – as indicated above – massively expanded access to social grants. The process of racial equalisation, which included a reduction in the pre-1994 amount of the child support grant, has meant that state expenditure on social grants has hovered around 3.4% of GDP. This has ensured sustainability of the expenditure and, combined with inflation-based increases and the fact that the categories of beneficiaries have now reached saturation, this should be sustainable going forward.

Assistance to the poorest households has included reprioritisation of educational expenditure such as the introduction of no-fee-paying schools, now at 60% of public schools²⁸; indigence programmes at local level which include provision of a basic minimum of water and electricity free of charge; and free access to public health facilities (for households with income of less than R50 000 per annum) to which will be added a form of national health “insurance” in the medium-term.

Besides these interventions, the following improvements have been made in relation to community assets²⁹:

- The number of households in formal dwellings has increased from 64% in 1996 to 77.7% in 2012, with some 3.4-million subsidised houses built since 1995/6.
- Access to potable water (‘RDP standard’ of a pipe within 500m of dwellings) has improved from around 65% in 1995/6 to 95.5% of households.
- Provision of sanitation has improved with about 52% of households having such access in 1995/6 to 83.4% in 2012.
- With regard to electricity, the percentage has increased from around 52% to 76.5% in the same period (these administrative data record a lower figure than Census 2011).

Among the failures in this period, the redistribution of land has been the weakest, with just over a tenth of the 2009 target of 30% of agricultural land redistributed having been achieved by 2012. In addition to this are such issues as transferring legal title to new and old housing stock in poor areas; as well as woeful quality of health services, poor education infrastructure and teaching, and intermittent flow of water in many disadvantaged communities.

Overall, though, there have been discernible improvements in non-income welfare since 1994. A study on this issue by Haroon Borat and Carlene van der Westhuizen³⁰ shows that government service provision has been pro-poor resulting in a decline in non-income poverty rates as well as in non-income inequality. They show that the Gini coefficient based on the Asset Index declined from 0.32 in 1993 to 0.24 in 2004. However, with regard to housing, for instance, account has to be taken of the fact that the wealth effect during years of high growth tended to favour those who are well-off.

IDENTIFYING SOME INTERVENTIONS

The dynamics outlined above, as they manifest both in South Africa and other parts of the world do already suggest the variety of interventions required to deal with inequality. A few such interventions

are listed below, more as suggestive indications of the combination of measures that would start addressing the challenge. Many of the issues are more complex than suggested in this brief treatment; but the proposals can serve as a basis for more systematic interrogation of the details.

Economic growth

Arguing against inequality is not to suggest equal sharing of poverty. Rather the challenge needs to be tackled in the context of high rates of sustainable economic growth. The issue is what kind of growth and how the benefits are shared in the context of improving productivity. As the World Bank study referred to above argues, it is possible to achieve pro-poor growth and pro-growth poverty reduction. This should entail, among others, a focus on economic sectors in which a country has comparative advantages, but with emphasis on labour-intensive sectors that are able in the short- to medium-term to absorb the mass of the unemployed. There may be instances where short-term pro-growth policies have a negative impact on the poor – in such instances, there should be direct assistance to the poor and SMMEs. Fiscal measures such as a youth employment incentive and business set-asides for youth and women can help launch the marginalised into meaningful economic activity.

Education and skills training

Education and skilling are among the most effective measures to tackle inequality. However, as the global phenomenon of youth marginalisation shows, such interventions should be combined with other policies to ensure economic growth and the opening of economic opportunities. Emphasis on improving quality should be in the areas of most need, among the poor, where ironically current poor performance and disruptions in South Africa conspire to reproduce poverty and marginalisation. This should be combined with vocational guidance and improvement of the formal and informal networks (social capital) that are critical to accessing opportunities. This will help break the cycle in which the poor experience lower, late and uncertain returns to educational attainment.

Employee Stock Ownership Plans

In addition to various measures aimed at sharing the benefits of companies' performance, serious consideration needs to be given to employee share-ownership in enterprises where they work. In the context of the Broad Based Black Economic Empowerment programme in South Africa, attention should be given to improving the weighting of this element. While this measure does have its complications, many of them can be addressed through appropriate representation in decision-making structures, financial education, and the building of trust between workers and their representatives and between these and the company boards and executives. This approach should also be considered in a more systematic way in relation to communities where enterprises in sectors such as mining and farming are located.

Incomes policy and minimum wage

Given that one of the critical drivers of inequality across the globe is the 'trickle-up effect', reflected in large and ballooning emoluments of senior executives of large corporations, the challenge of inequality cannot be addressed without attending to this issue either through appropriate regulations or taxation or both. Quite understandably, this has to be managed in a manner that does not undermine

incentivisation for good and exceptional performance by managers. But a national wage policy should seek to regulate the gaps between ordinary workers and the middle strata on the one hand, and the senior executives on the other. With regard to the issue of taxation, the legitimacy of the state – informed among others by its efficiency and ethical conduct – is critical. Such a policy should include a minimum wage (as distinct from current sectoral wage determinations) set at a level which affords workers a living wage. While there may be instances where mass absorption of the marginalised may dictate lower entry thresholds, such interventions should be temporary. Research has shown that reasonable increases to the minimum wage do not necessarily lead to job losses; but that compliance in vulnerable sectors is often poor³¹. As such, policy should seek progressively to minimise atypical work; and introduction of a minimum wage should be combined with requisite monitoring capacity to obviate breaches.

Reducing the cost of living of the poor

Besides improved earnings, the issue of the cost of living is fundamentally important. It is a matter of course that the inflation rate experienced by workers and the poor is often much higher and more volatile than that of the rich. This applies to such basic needs as food, transport and administered prices (e.g. electricity, water, municipal rates, education and health) on which the poor spend the bulk of their income. Many of these elements of the inflation basket, particularly administered prices, can be managed through appropriate interventions such as volume-based sliding-scale pricing and the floor of services for which charges are not levied. While complex, the issue of food pricing can also be tackled through management of the value chain, taxation, incentives, household food production and other measures. Changing spatial settlement patterns is also fundamental to reducing the cost of transport for the poor.

Added to these measures should be the panoply of **social wage interventions** identified above, with the necessary quality and efficiency of the public service.

South African society should also raise its level of **policy and political discourse**, and ensure that contestation is around matters of substance rather than a huckster's paradise where obfuscation – reflected in thinly-veiled attempts to defend the status quo and shadow-boxing among elites who mouth leftist slogans – confounds the real issues. The maladies that attach to the conduct of politics, such as the so-called 'sins of incumbency' where the new political elite of the democratic dispensation and other sections of the emergent middle and upper strata rely on the state for rapid personal accumulation, cannot be divorced from the reality of income inequality. Combined with this, is the state of indebtedness of these strata as they seek to emulate the lifestyles of the 'established' white economic elite without the benefit of historical assets that the latter enjoy. 'The fear of falling' to lower socio-economic rungs, in a highly unequal society, generates conduct that can imperil the overall polity. At the same time, especially in developed countries, template-based economic solutions to the global economic crisis that ignore the impact of policies on the working people demand coherent articulation of alternatives. The role of the media in this regard is also quite critical.

Dealing with inequality is a responsibility of the political leadership through public policy; but it is a task that requires the involvement of all sectors of society. As such, all the role-players – government,

business, labour and civil society – need to have leaders with the strategic acumen to identify the common interest and forge a **social compact** for mutually-beneficial economic programmes and humane social relations.

¹NPC Diagnostic Document, p14

² Extrapolated from Census 2011

³ Justin Visagie, Econ3X3, July 2013

⁴ Development Indicators (The Presidency), 2010/11 & 2011/12

⁵ Ibid, 2012

⁶ Visagie, Op cit

⁷ Towards a Fifteen Year Review, 2008 (The Presidency), p102

⁸ Servaas van der Berg, Workshop presentation, 19 March 2013

⁹ Global Wage Report, 2012/13, Part II, p41

¹⁰ Paul Krugman, *For Richer*, New York Times, 20 October 2002

¹¹ Growing Income Inequality in OECD Countries: What Drives it and How Can Policy Tackle it?, Forum, Paris, 2 May 2011

¹² MM&K and Manifest quoted by Brian Groom, FT 28/07/2011

¹³ Robin Harding, FT, 18 September 2013

¹⁴ ILO Global Wage Report, 2012/13, Part II, pp45/6

¹⁵ Peter Coy, Bloomberg BusinessWeek, 02 February 2011

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